

BEAVER COUNTY RETIREMENT SYSTEM



Investment Review Second Quarter 2008

TABLE OF CONTENTS

LETTER TO THE BOARD	Letter Tab
MARKET RECAP	Tab 1
➤ <i>Looking for the Positive: Equity and Fixed Income Outlooks</i>	
PERFORMANCE SUMMARY	Tab 2
PORTFOLIO STATISTICS	Tab 3
PORTFOLIO APPRAISAL	Tab 4
MEDIA PERSPECTIVE	Tab 5
➤ “Agriculture: Global Trends and Investment Implications” – <i>Advisor Perspectives, June 17, 2008</i>	



CIM INVESTMENT MANAGEMENT, INC.

Investment Building, 239 Fourth Ave., Suite 1302, Pittsburgh, PA 15222

Beaver County Retirement System
County Courthouse
810 Third Street
Beaver, PA 15009

August 20, 2008

Dear Members of the Board:

After the first quarter of this year most investors foresaw a much more stable second quarter. The domestic equity markets began to rebound, treasuries stabilized and the Federal Reserve Board stayed away from any more drastic moves to help the economy.

If it weren't for oil setting record highs, world disasters and food shortages, this may have been enough. Most major indices ended up dropping drastically in June to end with a negative quarter. The S&P 500 was down (2.73%) and the Small Cap S&P 600 squeezed out only a .40% return , Lehman Brothers Government Credit and Aggregate indexes were also down (1.51%) and (1.02%) respectively.

There could be good news in sight. It seems that there will be support to quell the financial woes burdening the market place. It is believed the Fed will stay away from any interest adjustments until we have a new President, which will be the December meeting. Fuel prices almost always drop after the summer season. This along with the S&P 500 historically doing well in election years should lead to a better second half of 2008.

Yours very truly,

CIM INVESTMENT MANAGEMENT, INC.

Andrew C. Fisher
President

MARKET RECAP

Equity and Fixed Income Summaries – March 31, 2008 to June 30, 2008

Equity Summary

As a general rule of thumb, the stock market will usually have positive returns during a Presidential election.

The stock market is and has always been cyclical. Both the Dow Industrial and S & P 500 saw record highs in October 2007. They have since dropped nearly 20% since then. We are in a recession. With crude oil nearing \$150/barrel, will other alternative fuel opportunities drive certain commodities into the realm of fossil fuels? Corn and soy beans lead this charge.

Has the sub-prime housing dilemma played itself out? Most (but not all) of the damage has been done. With the demise of Bear Stearns and the severe weakening of Lehman Bros. and Citigroup the market took a justifiable plunge. Concerns of the restructuring of Fannie Mae and Freddie Mac looming on the horizon, the mortgage business is still far from being settled.

Many analysts fear chairman Bernake's stand on helping financial institutions before they close their doors only delays the inevitable.

The Fed interest rate went to 2% in the first quarter and the government assistance of corporate takeovers to bail out Countrywide and Bear Stearns helped to boost the market in the beginning of the second quarter. June was one of the worst months in the stock market in recent times. With various indices going down 8% or more, the thought of positive returns for 2008 seem dismal.

CIM's general outlook is conservative. Over the past 50 years, the S&P has returned over 10% per year on an annualized basis. This should continue. The world economy is still growing at a nice rate. As the Euro has possibly peaked, we expect a reversal of fortune for the dollar, which could lead to lower prices at the pump and stronger domestic markets helping to lead the U.S. into a recovery over the next 6 to 12 months.

Fixed Income Summary

Consumer confidence dropped beyond expectations in June to its lowest level since the 1970s.

These low levels allowed Treasuries to continue to gain ground in the credit markets as investors still flee to high quality assets. Government Treasuries, Agencies & Mortgage Backed Securities have all been positive sectors in this tight credit market in the first half of 2008. The Federal Reserve announced June 25th to keep interest rates unchanged. Low rates could help the economy. There are concerns that inflation will lead to Fed increases but, popular opinion by market analysts is that nothing will happen until after the election. We await the December meeting. With interest rates remaining unchanged, questions arise about rising energy and commodity prices, making inflation a global issue.

Corporate financial debt continues to struggle. Many downgrades have been reported, most importantly Ambac, MBIA and other financial guarantors as a negative outlook is still lurking amidst the tale end of the credit crisis. As we know, financials have been the downside of 2008. In June, industrials and utilities fared better but surprisingly leave nothing to applaud about. Second Quarter returns in the bond market were set back as Lehman Brothers Gov/Credit Index and Aggregate Index posted returns of (1.51%) and (1.02%) respectively. Housing Markets have also continued to struggle with a record number of foreclosures and declining new house sales. The S&P House Price Index posted a decline in housing prices by 15.3% in the last year.

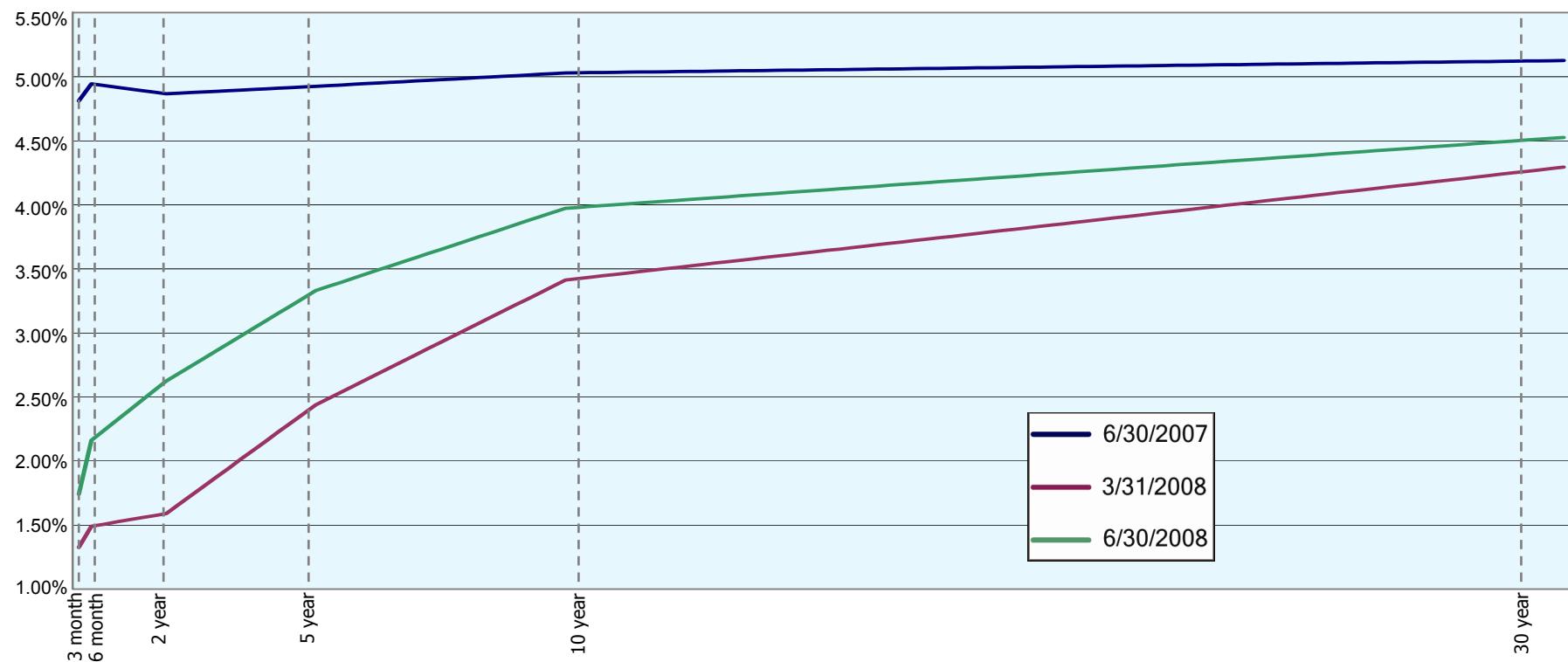
The Treasury yield curve has maintained a traditional slope as the yield on the 10 year note ended the quarter at 3.97% versus the yield on the 2 year note of 2.62%. CIM's fixed income portfolios are well positioned to withstand a volatile credit market. We have also emphasized liquidity in our fixed income investments.

	Index Returns	
	Quarter 3/31/08-6/30/08	One-Year 6/30/07-6/30/08
S&P 500	(2.73%)	(13.12%)
S&P MidCap 400	5.42	(7.34)
S&P SmallCap 600	0.40	(14.66)
Dow Jones Industrials	(6.85)	(13.27)
NASDAQ	0.82	(11.19)
MSCI EAFE	(1.92)	(10.05)
Lehman Aggregate	(1.02)	7.12
Lehman Gov./Credit	(1.51)	7.24



U.S. Treasury Yield Curve

Second Quarter 2008

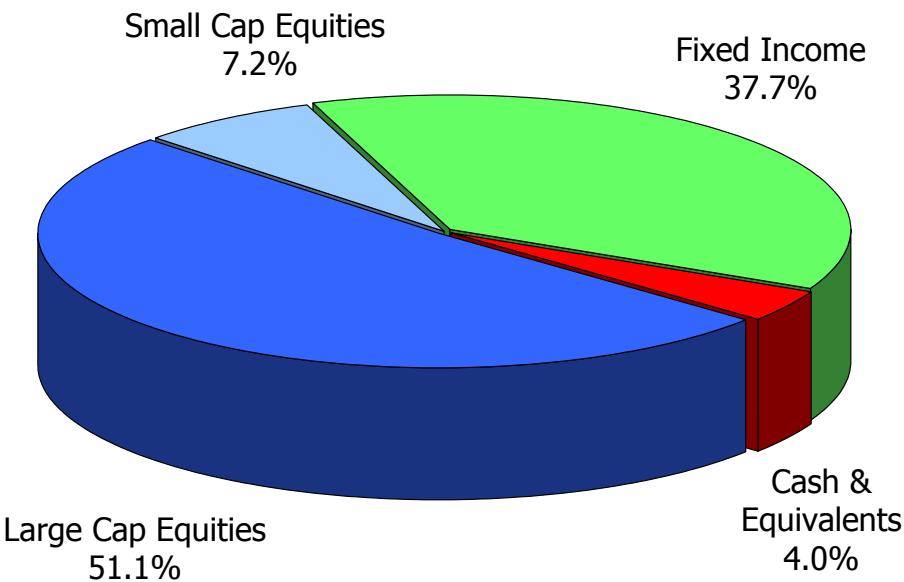


	<u>6/30/2007</u>	<u>3/31/2008</u>	<u>6/30/2008</u>	<u>Quarterly Change</u>	<u>Annual Change</u>
3 Month	4.81%	1.33%	1.74%	0.41%	(3.07%)
6 Month	4.94	1.49	2.16	0.67	(2.78)
2 Year	4.87	1.59	2.62	1.03	(2.25)
5 Year	4.92	2.44	3.33	0.89	(1.59)
10 Year	5.03	3.41	3.97	0.56	(1.06)
30 Year	5.12	4.29	4.52	0.23	(0.60)

PERFORMANCE SUMMARY

Beaver County Retirement System as of June 30, 2008

Asset Allocation



PORTFOLIO VALUE ON 12/31/07 \$94,178,593.45

CONTRIBUTIONS..... 5,601,677.61

WITHDRAWALS..... (4,028,599.57)

REALIZED GAINS..... (951,038.61)

UNREALIZED GAINS..... (5,545,721.23)

INTEREST 1,043,436.37

DIVIDENDS..... 652,118.29

CHANGE IN ACCRUED INTEREST..... (101,148.37)

PORTFOLIO VALUE ON 6/30/08 \$90,849,317.94

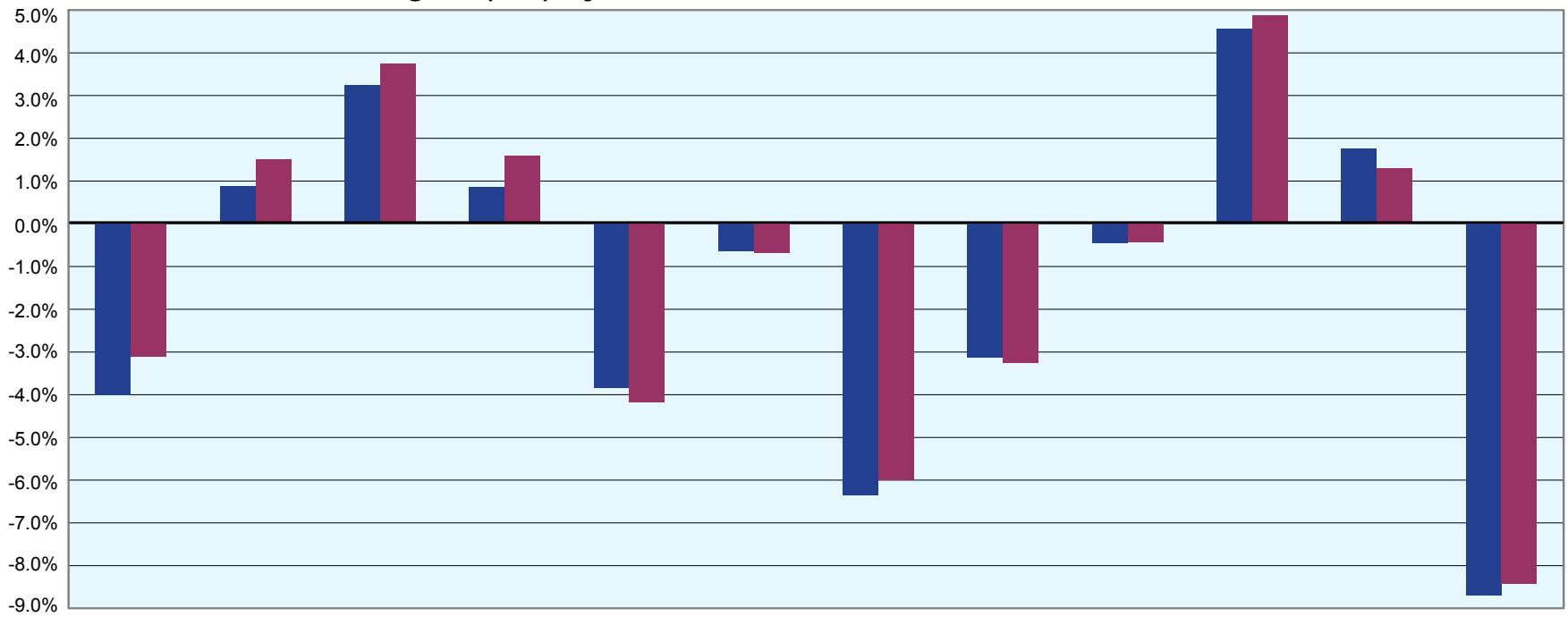
**TOTAL INVESTMENT GAIN
FOR TRAILING 6 MONTHS.....** (\$4,902,353.55)

	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Total Return</u>
Second Quarter 2008 (3/31/08 to 6/30/08)	90,886,271.81	90,849,317.94	(1.66%)
Year to Date (12/31/07 to 6/30/08)	94,178,593.45	90,849,317.94	(5.29%)
Inception to Date (12/26/95 to 6/30/08)	29,690,332.35	90,849,317.94	142.85%



Portfolio Performance Compared to Benchmark

Large Cap Equity Performance 1 Year – 6/30/07 to 6/30/08



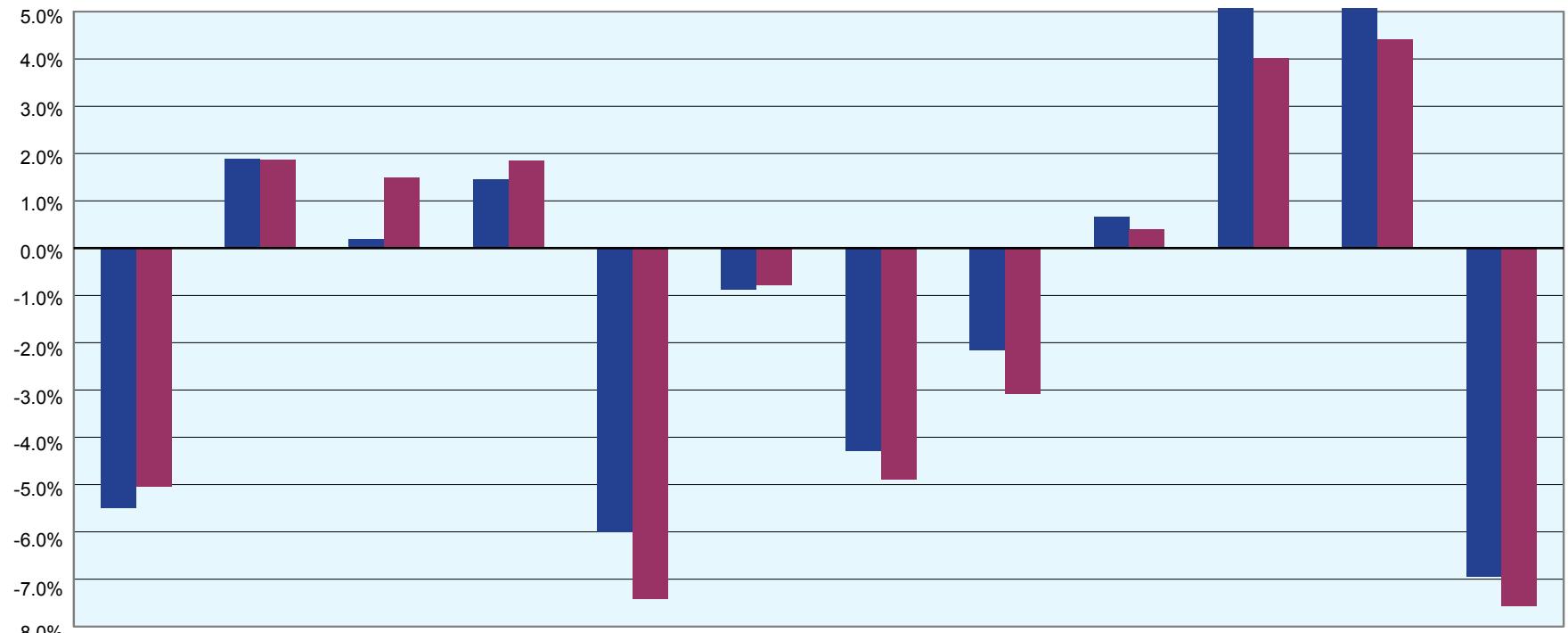
	Jul 07	Aug 07	Sept 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08
Beaver	(4.00)	0.89	3.24	0.85	(3.84)	(0.64)	(6.35)	(3.13)	(0.45)	4.57	1.76	(8.70)
Benchmark	(3.10)	1.50	3.74	1.59	(4.18)	(0.69)	(6.00)	(3.25)	(0.43)	4.87	1.30	(8.43)
Difference	(0.90)	(0.61)	(0.50)	(0.74)	0.34	0.05	(0.35)	0.12	(0.02)	(0.30)	0.46	(0.27)

	<u>Beaver</u>	<u>Standard & Poor's 500 Index</u>
Second Quarter 2008 (3/31/08 to 6/30/08)	(2.85%)	(2.73%)
Year to Date (12/31/07 to 6/30/08)	(12.26%)	(11.91%)
Trailing 2 Years (6/30/06 to 6/30/08)	1.22%	2.36% annualized



Portfolio Performance Compared to Benchmark

Small Cap Equity Performance 1 Year – 6/30/07 to 6/30/08



	Jul 07	Aug 07	Sept 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08
Beaver	(5.50)	1.88	0.19	1.45	(6.00)	(0.88)	(4.29)	(2.16)	0.67	5.71	5.32	(6.94)
Benchmark	(5.05)	1.87	1.49	1.86	(7.42)	(0.79)	(4.89)	(3.08)	0.39	4.01	4.42	(7.56)
Difference	(0.45)	0.01	(1.30)	(0.41)	1.42	(0.09)	0.60	0.92	0.28	1.70	0.90	0.62

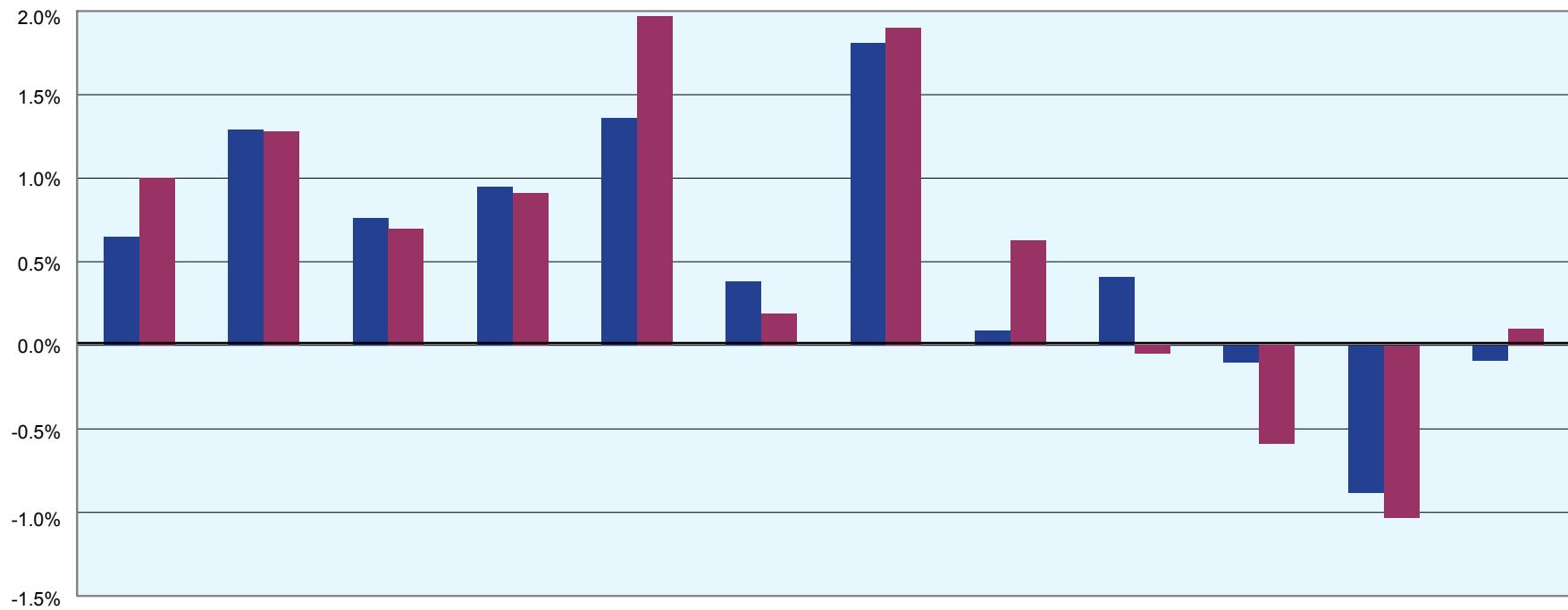
Beaver **Standard & Poor's
600 Index**

Second Quarter 2008 (3/31/08 to 6/30/08)	3.60%	0.40%
Year to Date (12/31/07 to 6/30/08)	(2.34%)	(7.09%)
Trailing 2 Years (6/30/06 to 6/30/08)	0.80%	(0.49%) annualized



Portfolio Performance Compared to Benchmark

Fixed Income Performance 1 Year – 6/30/07 to 6/30/08



	Jul 07	Aug 07	Sept 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08
Beaver	0.65	1.29	0.76	0.95	1.36	0.38	1.81	0.09	0.41	(0.10)	(0.88)	(0.09)
Benchmark	1.00	1.28	0.70	0.91	1.97	0.19	1.90	0.63	(0.01)	(0.59)	(1.03)	0.10
Difference	(0.35)	0.01	0.06	0.04	(0.61)	0.19	(0.09)	(0.54)	0.42	0.49	0.15	(0.19)

**Lehman Bros.
Government/Credit Index**

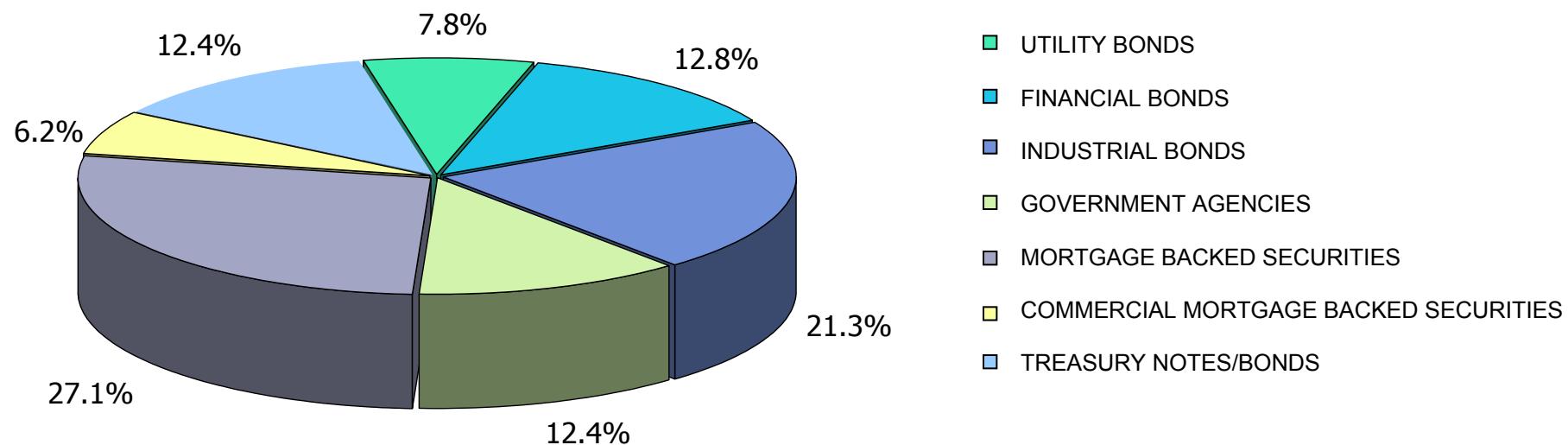
Second Quarter 2008 (3/31/08 to 6/30/08)	(1.07%)	(1.51%)
Year to Date (12/31/07 to 6/30/08)	1.23%	0.98%
Trailing 2 Years (6/30/06 to 6/30/08)	6.42%	6.62% annualized



PORTFOLIO STATISTICS

Beaver County Retirement System – Fixed Income Account as of June 30, 2008

Asset Allocation



Statistical Characteristics

	<u>Beaver</u>	<u>LBGC</u>
Coupon	5.45%	5.27%
Yield to Maturity	5.32%	4.60%
Modified Adjusted Duration	5.45 yrs	5.30 yrs
Average Price	\$100.57	\$102.41
Average Credit Quality	Aa3	Aa2

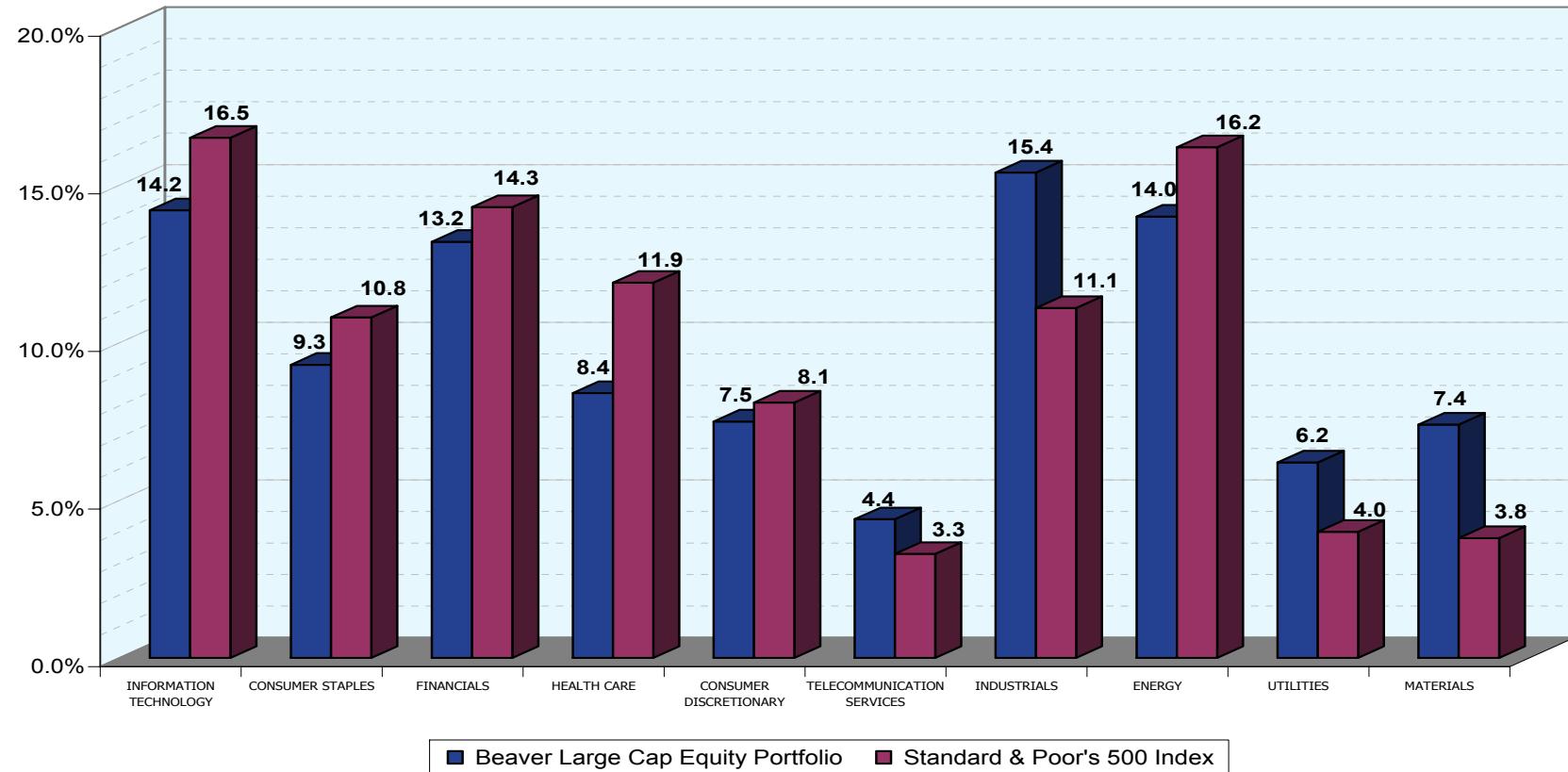
Sector Allocation

	<u>Beaver</u>	<u>LBGC</u>
Utility Bonds	7.8%	3.7%
Financial Bonds	12.8%	15.3%
Industrial Bonds	21.3%	16.7%
Government Agencies	12.4%	17.9%
Other Government	0.0%	6.9%
Mortgage Backed Securities	27.1%	0.0%
Commercial Mortgage Backed Securities	6.2%	0.0%
Treasury Notes/Bonds	12.4%	39.5%



PORTFOLIO STATISTICS

Beaver County Retirement System – Large Cap Portfolio Industry Sector Diversification as of June 30, 2008



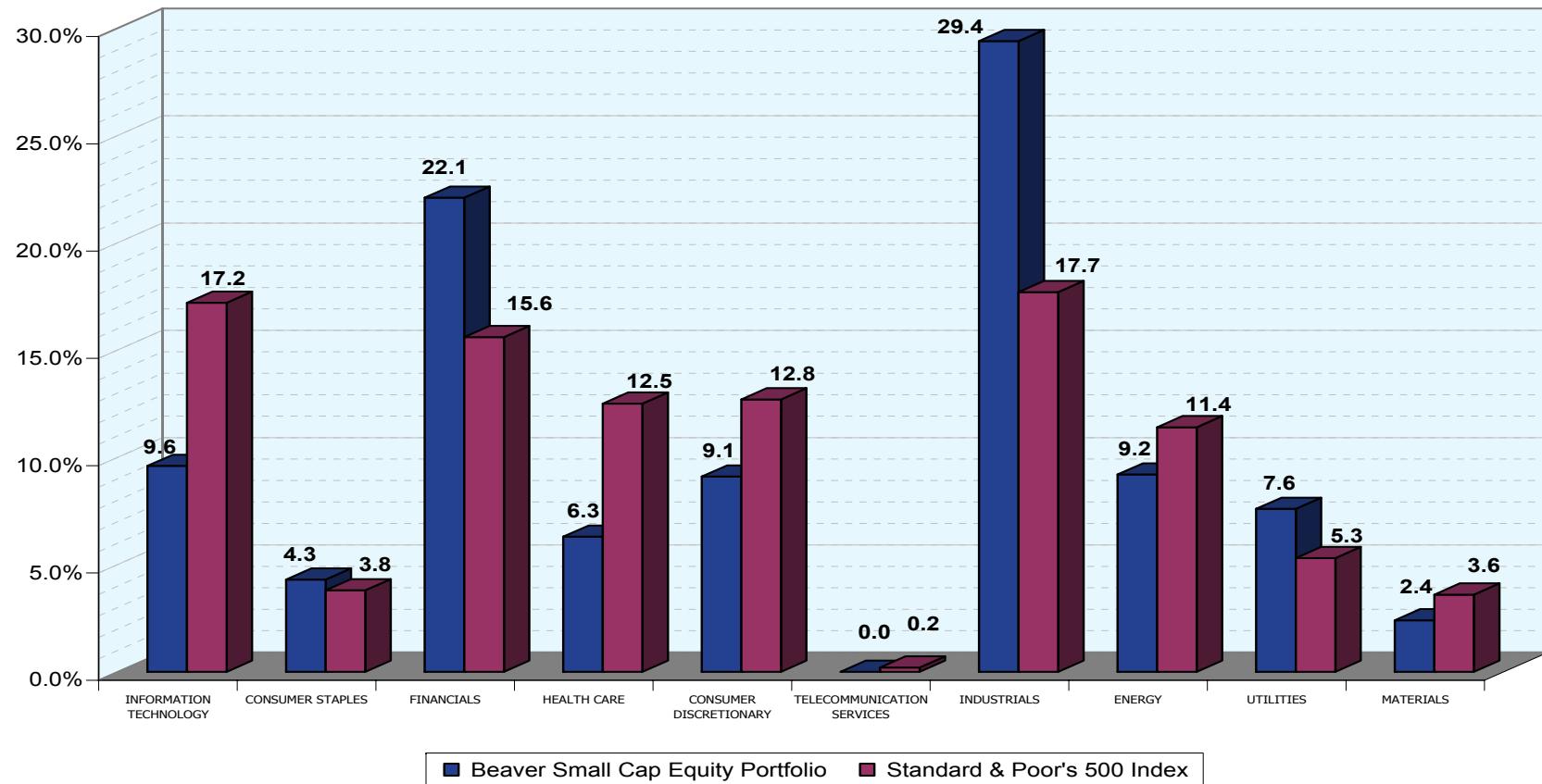
Top Ten Equity Holdings

	percentage		percentage
1. Exxon Mobil Corp.	4.3	6. Cisco Systems, Inc.	1.7
2. General Electric Co.	2.4	7. Procter & Gamble	1.6
3. Microsoft Corp.	2.1	8. Chevron Texaco Corp.	1.5
4. AT&T	1.7	9. Torchmark Corp,	1.4
5. Int'l Bus Machines	1.7	10. Bank of America Corp.	1.4



PORTFOLIO STATISTICS

Beaver County Retirement System – Small Cap Portfolio Industry Sector Diversification as of June 30, 2008



Top Ten Equity Holdings

	percentage		percentage
1. Oceaneering Intl Inc.	2.3	6. Gardner Denver Inc.	1.6
2. Emcor Group Inc.	1.8	7. Penn Virginia Corp.	1.6
3. Atmos Energy Corp.	1.8	8. Kaydon Corp.	1.6
4. St. Mary Land & Exp.	1.7	9. Kirby Corp.	1.5
5. Baldor Electric Co.	1.7	10. Waste Connections Inc.	1.5



BEAVER COUNTY RETIREMENT SYSTEM PORTFOLIO APPRAISAL

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
COMMON STOCK								
INFORMATION TECHNOLOGY								
2,040	ANSYS Inc.	38.23	77,979.41	47.12	96,124.80	0.1	0.00	0.0
3,795	Apple Computer	107.54	408,128.10	167.44	635,434.80	0.7	0.00	0.0
4,160	Benchmark Electronics	19.46	80,955.29	16.34	67,974.40	0.1	0.00	0.0
5,600	Brooks Automation Inc	12.00	67,180.62	8.27	46,312.00	0.1	0.00	0.0
10,970	CA Inc.	21.24	233,005.09	23.09	253,297.30	0.3	438.80	0.2
30,360	Cisco Systems, Inc.	16.46	499,764.12	23.26	706,173.60	0.8	0.00	0.0
10,250	Corning Inc.	21.60	221,380.53	23.05	236,262.50	0.3	512.50	0.2
1,830	Cymer Inc.	27.97	51,189.40	26.88	49,190.40	0.1	0.00	0.0
1,040	Google Inc Cl-B	455.78	474,014.22	526.42	547,476.80	0.6	0.00	0.0
12,125	Hewlett Packard Co.	22.70	275,291.23	44.21	536,046.25	0.6	970.00	0.2
3,740	Insight Enterprises Inc.	16.62	62,158.05	11.73	43,870.20	0.0	0.00	0.0
6,745	Int'l Bus Machines	69.98	472,038.62	118.53	799,484.85	0.9	3,372.50	0.4
30,425	Intel Corporation	19.20	584,174.00	21.48	653,529.00	0.7	4,259.50	0.7
3,575	MKS Instruments Inc.	17.17	61,377.39	21.90	78,292.50	0.1	0.00	0.0
2,310	Manahattan Associates	24.88	57,469.10	23.73	54,816.30	0.1	0.00	0.0
1,890	Micros Syst Inc	32.34	61,122.60	30.49	57,626.10	0.1	0.00	0.0
2,705	Microsemi Corp.	21.33	57,696.00	25.18	68,111.90	0.1	0.00	0.0
34,735	Microsoft Corporation	26.64	925,394.69	27.51	955,559.85	1.1	3,820.85	0.4
20,040	Motorola, Inc.	12.15	243,484.00	7.34	147,093.60	0.2	1,002.00	0.7
20,145	Oracle Systems Corp.	15.56	313,364.79	21.00	423,045.00	0.5	0.00	0.0
8,165	Qualcomm Inc.	36.16	295,255.31	44.37	362,281.05	0.4	1,306.40	0.4
11,480	Texas Instruments	26.04	298,886.20	28.16	323,276.80	0.4	1,148.00	0.4
2,010	Varian Semiconductor	12.75	25,636.77	34.82	69,988.20	0.1	0.00	0.0
			5,846,945.55		7,211,268.20	7.9	16,830.55	0.2
CONSUMER STAPLES								
8,605	Altria Group Inc.	11.41	98,143.26	20.56	176,918.80	0.2	2,495.45	1.4
30,995	Autonation Inc.	17.81	552,112.10	10.02	310,569.90	0.3	0.00	0.0
6,890	CVS Corp.	37.12	255,756.80	39.57	272,637.30	0.3	413.40	0.2
8,730	Campbell Soup Co.	35.66	311,269.74	33.46	292,105.80	0.3	1,920.60	0.7
8,205	Coca Cola Co.	57.59	472,495.59	51.98	426,495.90	0.5	3,117.90	0.7
3,155	Flowers Foods Inc	22.95	72,404.41	28.34	89,412.70	0.1	473.25	0.5
2,315	Hain Celestial Group Inc.	29.80	68,987.00	23.48	54,356.20	0.1	0.00	0.0
2,980	J&J Snack Foods	28.06	83,604.20	27.41	81,681.80	0.1	275.65	0.3



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
8,800	Kellogg Company	48.25	424,619.92	48.02	422,576.00	0.5	2,728.00	0.6
8,516	Kraft Foods Inc.	20.67	176,056.85	28.45	242,280.20	0.3	2,299.32	0.9
6,870	Pepsi Bottling Gp.	32.20	221,214.00	27.92	191,810.40	0.2	1,167.90	0.6
5,635	Pepsico Inc.	44.00	247,937.40	63.59	358,329.65	0.4	2,394.87	0.7
8,605	Philip Morris Intl.	25.58	220,079.06	49.39	425,000.95	0.5	0.00	0.0
10,295	Procter & Gamble	53.69	552,687.29	60.81	626,038.95	0.7	4,118.00	0.7
980	Texas Industries Inc.	65.26	63,956.70	56.13	55,007.40	0.1	73.50	0.1
10,260	Wal-Mart Stores	49.39	506,725.25	56.20	576,612.00	0.6	2,436.75	0.4
			4,328,049.57		4,601,833.95	5.1	23,914.59	0.5
FINANCIALS								
2,555	Acadia Realty Trust	24.93	63,706.63	23.15	59,148.25	0.1	536.55	0.9
11,781	American Int'l Grp, Inc.	51.45	606,171.87	26.46	311,725.26	0.3	2,591.82	0.8
7,691	Apt Invt & Mgmt Co-A	49.26	378,886.43	34.06	261,955.46	0.3	4,614.60	1.8
2,860	Avalonbay Comm, Inc.	86.12	246,298.91	89.16	254,997.60	0.3	2,552.55	1.0
17,413	Bank of America Corp.	32.34	563,171.44	23.87	415,648.31	0.5	11,144.32	2.7
6,460	Bank of NY Co.	44.64	288,372.46	37.83	244,381.80	0.3	1,550.40	0.6
2,450	Biomed Realty Trust Inc.	22.38	54,837.62	24.53	60,098.50	0.1	820.75	1.4
8,555	Cincinnati Financial	40.98	350,543.60	25.40	217,297.00	0.2	3,336.45	1.5
21,990	Citigroup - New	31.00	681,771.58	16.76	368,552.41	0.4	7,036.80	1.9
7,510	Comerica Inc.	37.09	278,542.15	25.63	192,481.30	0.2	4,956.60	2.6
864	Deerfield Capital Corp	1.45	1,249.70	0.79	682.48	0.0	362.84	53.2
2,307	Delphi Fin Gp-A	34.34	79,232.46	23.14	53,383.98	0.1	230.70	0.4
7,960	Developers Div. Rlty.	34.26	272,673.78	34.71	276,291.60	0.3	5,492.40	2.0
1,550	Entertainment Prop Inc	41.63	64,529.15	49.44	76,632.00	0.1	1,302.00	1.7
840	Essex Property Trust	106.79	89,705.29	106.50	89,460.00	0.1	856.80	1.0
4,965	Federated Inv - Cl B	31.35	155,644.18	34.42	170,895.30	0.2	1,191.60	0.7
14,330	First Horizon	28.25	404,820.85	7.43	106,471.90	0.1	0.00	0.0
3,635	First Midwest Bancorp	31.03	112,776.31	18.65	67,792.75	0.1	1,126.85	1.7
3,837	Glacier Bancorp	18.41	70,651.53	15.99	61,353.63	0.1	498.81	0.8
2,480	Goldman Sachs Grp.	98.66	244,672.40	174.90	433,752.00	0.5	868.00	0.2
26,540	Huntington Bancshares	11.11	294,831.66	5.77	153,135.80	0.2	3,516.55	2.3
1,320	Investment Tech Grp.	43.21	57,038.10	33.46	44,167.20	0.0	0.00	0.0
15,000	JP Morgan Chase	33.28	499,144.51	34.31	514,650.00	0.6	5,700.00	1.1
1,525	Kilroy Realty	57.95	88,376.13	47.03	71,720.75	0.1	884.50	1.2
5,500	Lexington Corp PPTYS	17.19	94,553.67	13.63	74,965.00	0.1	1,815.00	2.4
3,460	M&T Bank	107.70	372,643.50	70.54	244,068.40	0.3	2,422.00	1.0
11,160	Marshall & Ilsley Corp.	22.38	249,738.48	15.33	171,082.80	0.2	3,571.20	2.1
6,200	Merrill Lynch & Co.	51.65	320,210.85	31.71	196,602.00	0.2	2,170.00	1.1



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
6,455	Morgan Stanley	39.08	252,271.70	36.07	232,831.85	0.3	1,742.85	0.7
4,520	National Retail Properties	21.31	96,333.86	20.90	94,468.00	0.1	1,695.00	1.8
1,425	PS Business Parks Inc./CA	47.53	67,734.95	51.60	73,530.00	0.1	627.00	0.9
1,745	Philadelphia Cons	36.08	62,958.03	33.97	59,277.65	0.1	0.00	0.0
5,610	Presidential Life	16.92	94,925.69	15.42	86,506.20	0.1	0.00	0.0
1,370	Proassurance Corp	48.33	66,210.75	48.11	65,910.70	0.1	0.00	0.0
5,265	Safeco Corporation	60.17	316,795.35	67.16	353,597.40	0.4	2,106.00	0.6
2,895	Senior Housing Prop Tr.	21.39	61,910.15	19.53	56,539.35	0.1	1,013.25	1.8
5,245	South Financial Grp.	13.57	71,164.16	3.92	20,560.40	0.0	52.45	0.3
6,320	Susquehanna Bancsh	19.43	122,822.05	13.69	86,520.80	0.1	1,643.20	1.9
6,015	T Rowe Price Gr	47.86	287,877.90	56.47	339,667.05	0.4	1,443.60	0.4
2,050	Tanger Factory Outlet Center	35.27	72,295.51	35.93	73,656.50	0.1	779.00	1.1
11,025	Torchmark Corp.	55.50	611,935.20	58.65	646,616.25	0.7	1,543.50	0.2
1,120	UMB Financial Corp.	37.71	42,234.75	51.27	57,422.40	0.1	184.80	0.3
3,230	United Bankshares Inc.	27.32	88,256.84	22.95	74,128.50	0.1	936.70	1.3
1,420	Zenith Natl Ins Cp	41.99	59,620.31	35.16	49,927.20	0.1	710.00	1.4
			9,360,142.45		7,564,553.73	8.3	85,627.44	1.1
HEALTH CARE								
6,400	Abbott Laboratories	43.82	280,445.45	52.97	339,008.00	0.4	2,304.00	0.7
5,810	Amgen Inc.	50.12	291,206.72	47.16	273,999.60	0.3	0.00	0.0
7,495	Applied Biosystems	31.84	238,640.80	33.48	250,932.60	0.3	318.54	0.1
1,675	Arthrocare Corp.	43.86	73,458.80	40.81	68,356.75	0.1	0.00	0.0
10,985	Bristol Myers Squibb	24.40	268,076.52	20.53	225,522.05	0.2	3,405.35	1.5
2,715	Conmed Corp.	27.01	73,339.48	26.55	72,083.25	0.1	0.00	0.0
5,460	Gilead Sciences Inc.	44.43	242,581.25	52.95	289,107.00	0.3	0.00	0.0
1,360	Idexx Laboratories Inc.	24.63	33,495.56	48.74	66,286.40	0.1	0.00	0.0
1,740	ImmuCor Inc.	30.78	53,557.20	25.88	45,031.20	0.0	0.00	0.0
8,935	Johnson & Johnson	49.96	446,413.46	64.34	574,877.90	0.6	4,110.10	0.7
5,860	Lilly (ELI) Co.	60.00	351,601.67	46.16	270,497.60	0.3	2,754.20	1.0
8,920	Merck & Co. Inc.	49.88	444,914.56	37.69	336,194.80	0.4	3,389.60	1.0
1,260	Owens & Minor Inc	42.25	53,232.23	45.69	57,569.40	0.1	252.00	0.4
1,140	Pediatrix Medical Grp Inc.	48.76	55,589.59	49.23	56,122.20	0.1	0.00	0.0
29,820	Pfizer Inc.	30.81	918,689.54	17.47	520,955.40	0.6	9,542.40	1.8
10,630	Schering-Plough	24.38	259,208.60	19.69	209,304.70	0.2	690.95	0.3
2,160	Sunrise Senior Living	26.64	57,537.00	22.48	48,556.80	0.1	0.00	0.0
5,065	UnitedHealth Group	51.60	261,346.40	26.25	132,956.25	0.1	151.95	0.1
3,535	WellPoint Health	79.89	282,426.70	47.66	168,478.10	0.2	0.00	0.0
6,425	Wyeth	39.60	254,429.98	47.96	308,143.00	0.3	1,799.00	0.6
			4,940,191.50		4,313,983.00	4.7	28,718.09	0.7



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
CONSUMER DISCRETIONARY								
7,155	CKE Restaurants, Inc.	12.13	86,824.49	12.47	89,222.85	0.1	429.30	0.5
16,862	Comcast Corp.-Cl A	18.07	304,729.87	18.97	319,872.14	0.4	1,053.87	0.3
11,385	Disney Walt Co.	22.92	260,904.28	31.20	355,212.00	0.4	3,984.75	1.1
1,215	Factset Research Sys Inc.	53.58	65,103.35	56.36	68,477.40	0.1	218.70	0.3
4,320	Fortune Brands	65.25	281,866.61	62.41	269,611.20	0.3	1,814.40	0.7
11,810	Genuine Parts Co.	42.36	500,260.83	39.68	468,620.80	0.5	4,605.90	1.0
10,140	Home Depot Inc.	28.55	289,523.71	23.42	237,478.80	0.3	2,281.50	1.0
5,975	McDonalds Corp.	52.37	312,883.27	56.22	335,914.50	0.4	2,240.62	0.7
7,540	Meredith Corp.	49.21	371,045.46	28.29	213,306.60	0.2	1,621.10	0.8
13,390	News Corp-Cl A	18.51	247,795.34	15.04	201,385.60	0.2	803.40	0.4
1,575	Polaris Industries Inc.	41.83	65,878.00	40.38	63,598.50	0.1	598.50	0.9
2,705	Sonic Corp.	21.27	57,547.52	14.80	40,034.00	0.0	0.00	0.0
1,740	Sovran Self Storage	36.95	64,292.83	41.56	72,314.40	0.1	1,096.20	1.5
4,660	Stanley Works	56.29	262,311.40	44.83	208,907.80	0.2	1,444.60	0.7
5,355	Target Corp.	53.37	285,796.35	46.49	248,953.95	0.3	856.80	0.3
22,085	Time Warner Inc.	14.71	324,800.04	14.80	326,858.00	0.4	1,380.31	0.4
1,805	Toro Co.	46.57	84,066.26	33.27	60,052.35	0.1	270.75	0.5
8,150	Triarc Class B	8.44	68,808.52	6.33	51,589.50	0.1	733.50	1.4
475	Trimble Nav. Ltd	25.65	12,183.99	35.70	16,957.50	0.0	0.00	0.0
2,205	Viad Corp.	35.63	78,566.25	25.79	56,866.95	0.1	88.20	0.2
520	Washington Post Cl-B	754.95	392,572.28	586.90	305,188.00	0.3	1,118.00	0.4
1,915	Watsco, Inc.	44.11	84,464.49	41.80	80,047.00	0.1	861.75	1.1
			4,502,225.15		4,090,469.84	4.5	27,502.16	0.7
TELECOMMUNICATION SERVICES								
22,840	AT&T	35.36	807,676.11	33.69	769,479.60	0.8	9,136.00	1.2
6,670	American Tower Cl-A	35.61	237,525.37	42.25	281,807.50	0.3	0.00	0.0
7,420	Centurytel	34.10	253,042.78	35.59	264,077.80	0.3	500.85	0.2
1	Citadel Broadcasting	25.82	25.81	1.22	1.22	0.0	0.00	0.0
25,110	Citizens Comm.	10.35	259,888.50	11.34	284,747.40	0.3	6,277.50	2.2
223	Fairpoint Comm., Inc	8.67	1,933.86	7.21	1,607.83	0.0	57.42	3.6
11,840	Verizon Comm.	36.61	433,443.50	35.40	419,136.00	0.5	5,091.20	1.2
			1,993,535.93		2,020,857.35	2.2	21,062.97	1.0
INDUSTRIALS								
3,730	3M Co.	75.26	280,701.90	69.59	259,570.70	0.3	1,865.00	0.7
2,055	ATMI Inc.	28.75	59,080.43	27.92	57,375.60	0.1	0.00	0.0
1,865	Acuity Brands Inc.	35.35	65,924.03	48.08	89,669.20	0.1	242.45	0.3



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
1,850	Albany Intl Corp.	35.31	65,317.80	29.00	53,650.00	0.1	222.00	0.4
1,150	Anixter Intl Inc.	57.02	65,574.50	59.49	68,413.50	0.1	0.00	0.0
2,225	Aptargroup Inc.	26.47	58,884.75	41.95	93,338.75	0.1	289.25	0.3
6,130	Avery Dennison Corp.	45.72	280,276.47	43.93	269,290.90	0.3	2,513.30	0.9
3,185	Baldor Electric Co.	33.38	106,304.10	34.98	111,411.30	0.1	541.45	0.5
1,785	Barnes Group Inc.	30.44	54,336.11	23.09	41,215.65	0.0	285.60	0.7
1,945	Belden CDT	33.56	65,265.43	33.88	65,896.60	0.1	97.25	0.1
4,185	Boeing Co.	49.60	207,574.40	65.72	275,038.20	0.3	1,674.00	0.6
4,385	Caterpillar Inc.	63.94	280,386.55	73.82	323,700.70	0.4	1,841.70	0.6
9,690	Cintas Corp.	34.73	336,503.13	26.51	256,881.90	0.3	4,457.40	1.7
1,855	Clarcor Inc.	34.56	64,106.34	35.10	65,110.50	0.1	148.40	0.2
8,005	Cooper Industries	45.60	365,040.10	39.50	316,197.50	0.3	2,001.25	0.6
1,340	Curtiss-Wright Corp.	46.93	62,892.63	44.74	59,951.60	0.1	107.20	0.2
4,880	Danaher Corp.	72.83	355,387.75	77.30	377,224.00	0.4	146.40	0.0
3,595	Deere & Company	82.94	298,164.27	72.13	259,307.35	0.3	1,006.60	0.4
11,920	Dover Corporation	45.59	543,421.17	48.37	576,570.40	0.6	2,384.00	0.4
4,095	Emcor Group Inc.	19.66	80,518.76	28.53	116,830.35	0.1	0.00	0.0
175	FLIR System, Inc.	31.43	5,500.25	40.57	7,099.75	0.0	0.00	0.0
1,995	G & K Services, Inc.	37.81	75,430.15	30.46	60,767.70	0.1	99.75	0.2
1,890	Gardner Denver Inc.	31.71	59,933.22	56.80	107,352.00	0.1	0.00	0.0
10,695	GenCorp Inc.	7.39	78,983.64	7.16	76,576.20	0.1	0.00	0.0
41,245	General Electric Co.	33.34	1,375,266.09	26.69	1,100,829.05	1.2	12,785.95	1.2
2,915	Grainger (W.W.) Inc.	75.77	220,883.54	81.80	238,447.00	0.3	1,166.00	0.5
6,665	Honeywell Intl., Inc.	48.18	321,087.35	50.28	335,116.20	0.4	1,832.87	0.5
7,650	Ingersoll-Rand Co.	42.73	326,855.70	37.43	286,339.50	0.3	1,377.00	0.5
3,805	Jacobs Engineering Gp.	78.43	298,442.51	80.70	307,063.50	0.3	0.00	0.0
2,035	Kaydon Corp.	42.39	86,272.77	51.41	104,619.35	0.1	305.25	0.3
1,455	Landstar System Inc.	39.13	56,932.55	55.22	80,345.10	0.1	54.56	0.1
1,885	Lennox Intl Inc.	29.53	55,654.74	28.96	54,589.60	0.1	263.90	0.5
9,155	Meadwestvaco Corp.	26.33	241,013.61	23.84	218,255.20	0.2	2,105.65	1.0
1,490	Moog Inc.	44.86	66,838.72	37.24	55,487.60	0.1	0.00	0.0
1,960	Oceaneering Intl Inc.	75.24	147,469.81	77.05	151,018.00	0.2	0.00	0.0
12,830	Pitney Bowes, Inc.	40.41	518,506.78	34.10	437,503.00	0.5	4,490.50	1.0
8,065	RR Donnelley	36.41	293,643.25	29.69	239,449.85	0.3	2,096.90	0.9
1,825	Regal Beloit	47.01	85,791.46	42.25	77,106.25	0.1	292.00	0.4
3,925	Rockwell Collins	65.51	257,137.05	47.96	188,243.00	0.2	942.00	0.5
300	Shaw Group Inc	60.35	18,105.72	61.79	18,537.00	0.0	0.00	0.0
5,415	Textron, Inc.	46.54	251,989.85	47.93	259,540.95	0.3	1,245.45	0.5
5,035	United Parcel Svc-Cl B	69.38	349,323.90	61.47	309,501.45	0.3	2,265.75	0.7



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
1,445	United Stationers Inc.	31.30	45,233.18	36.95	53,392.75	0.1	0.00	0.0
5,620	United Tech Corp.	44.11	247,899.00	61.70	346,754.00	0.4	1,798.40	0.5
3,080	Waste Connections Inc.	28.60	88,079.30	31.93	98,344.40	0.1	0.00	0.0
1,830	Watson Wyatt WW Cl-A	37.93	69,409.32	52.89	96,788.70	0.1	137.25	0.1
2,180	Woodward Governor	31.57	68,826.74	35.66	77,738.80	0.1	130.80	0.2
			9,406,170.82		9,123,450.60	10.0	53,213.24	0.6
ENERGY								
2,805	Apache Corp.	93.22	261,492.20	139.00	389,895.00	0.4	420.75	0.1
550	Cabot Oil & Gas	28.14	15,477.00	67.73	37,251.50	0.0	16.50	0.0
7,875	ChevronTexaco Corp.	44.86	353,256.80	99.13	780,648.75	0.9	5,118.75	0.7
7,885	ConocoPhillips	36.98	291,610.01	94.39	744,265.15	0.8	3,705.95	0.5
3,700	Devon Energy Corp.	79.60	294,506.68	120.16	444,592.00	0.5	592.00	0.1
22,370	Exxon Mobil Corp.	44.75	1,000,987.45	88.13	1,971,468.10	2.2	8,948.00	0.5
2,310	Helix Energy	32.52	75,132.31	41.64	96,188.40	0.1	0.00	0.0
2,080	Kirby Corp.	37.63	78,279.73	48.00	99,840.00	0.1	0.00	0.0
8,995	Nabors Industries	31.02	279,049.75	49.23	442,823.85	0.5	0.00	0.0
3,585	Noble Energy Inc	74.81	268,181.66	100.56	360,507.60	0.4	645.30	0.2
4,740	Occidental Pete	65.27	309,362.26	89.86	425,936.40	0.5	1,516.80	0.4
1,410	Penn Virginia Corp.	36.41	51,333.80	75.42	106,342.20	0.1	79.31	0.1
7,245	Rowan Cos.	31.04	224,889.55	46.75	338,703.75	0.4	724.50	0.2
5,435	Schlumberger LTD	38.89	211,354.22	107.43	583,882.05	0.6	1,141.35	0.2
1,000	Seacor Smit Inc.	82.55	82,552.61	89.51	89,510.00	0.1	0.00	0.0
1,745	St. Mary Land & Exp.	36.55	63,786.10	64.64	112,796.80	0.1	87.25	0.1
760	Unit Corp.	47.00	35,720.91	82.97	63,057.20	0.1	0.00	0.0
			3,896,973.03		7,087,708.75	7.8	22,996.46	0.3
UTILITIES								
4,205	Atmos Energy Corp.	27.70	116,464.70	27.57	115,931.85	0.1	1,366.62	1.2
3,690	Avista Corp.	25.13	92,738.52	21.46	79,187.40	0.1	608.85	0.8
16,840	Centerpoint Energy Inc.	18.52	311,802.70	16.05	270,282.00	0.3	3,073.30	1.1
6,390	DTE Energy Company	41.56	265,561.37	42.44	271,191.60	0.3	3,386.70	1.2
700	ITRON Inc.	93.98	65,785.93	98.35	68,845.00	0.1	0.00	0.0
6,811	Integry Energy Gp. Inc.	53.24	362,634.62	50.83	346,203.13	0.4	4,563.37	1.3
12,730	NICOR Inc.	44.39	565,139.24	42.59	542,170.70	0.6	5,919.45	1.1
13,230	Pepco Holdings, Inc.	25.85	341,938.61	25.65	339,349.50	0.4	3,572.10	1.1
2,540	Piedmont Nat. Gas Co.	26.07	66,219.32	26.16	66,446.40	0.1	660.40	1.0
8,330	Pinnacle West	42.52	354,196.18	30.77	256,314.10	0.3	4,373.25	1.7



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
3,465	Southern Union Co.	27.93	96,774.94	27.02	93,624.30	0.1	519.75	0.6
26,540	Teco Energy	16.97	450,476.31	21.49	570,344.60	0.6	5,175.30	0.9
2,625	UGI Corp.	27.81	72,993.11	28.71	75,363.75	0.1	1,850.62	2.5
12,865	Xcel Enegergy Inc.	24.07	309,606.17	20.07	258,200.55	0.3	3,055.44	1.2
			3,472,331.73		3,353,454.88	3.7	38,125.16	1.1
MATERIALS								
3,235	Air Prod. & Chem.	84.38	272,968.01	98.86	319,812.10	0.4	1,423.40	0.4
13,190	Bemis Company	27.54	363,232.05	22.42	295,719.80	0.3	2,901.80	1.0
6,960	Du Pont (E.I.)	42.68	297,083.42	42.89	298,514.40	0.3	2,853.60	1.0
4,480	Ecolab Inc.	31.76	142,284.80	42.99	192,595.20	0.2	582.40	0.3
3,120	Freeport MC Co. - Cl B	82.04	255,964.80	117.19	365,632.80	0.4	1,365.00	0.4
7,080	Int'l Flavors and Frag.	35.88	254,063.09	39.06	276,544.80	0.3	1,628.40	0.6
275	Massey Energy Co.	34.14	9,389.35	93.75	25,781.25	0.0	13.75	0.1
3,120	Monsanto Co.	103.25	322,135.63	126.44	394,492.80	0.4	748.80	0.2
5,685	PPG Industries Inc.	61.84	351,566.09	57.37	326,148.45	0.4	2,956.20	0.9
455	Patriot Coal Corp.	132.53	60,299.24	153.29	69,746.95	0.1	0.00	0.0
7,755	Plum Creek Timber	35.59	275,987.53	42.71	331,216.05	0.4	3,257.10	1.0
12,530	Sealed Air	24.10	301,951.56	19.01	238,195.30	0.3	1,503.60	0.6
7,115	Sigma-Aldrich	29.68	211,189.57	53.86	383,213.90	0.4	924.95	0.2
610	Valmont Industries	93.18	56,838.21	104.29	63,616.90	0.1	79.30	0.1
			3,174,953.35		3,581,230.70	3.9	20,238.30	0.6
	COMMON STOCK Total		50,921,519.08		52,948,811.00	58.3	338,228.96	0.6
U.S. TREASURY NOTES/BONDS								
500,000	U.S. Treasury Note 5.000% Due 02-15-11	108.56	542,812.50	105.59	527,968.75	0.6	25,000.00	4.7
500,000	U.S. Treasury Note 5.000% Due 08-15-11	113.59	567,968.75	106.19	530,937.50	0.6	25,000.00	4.7
200,000	U.S. Treasury Note 4.875% Due 02-15-12	99.57	199,140.63	106.03	212,062.50	0.2	9,750.00	4.6
110,000	U.S. Treasury Note 4.750% Due 05-31-12	105.02	115,517.60	105.75	116,325.00	0.1	5,225.00	4.5
210,000	U.S. Treasury Note 4.875% Due 06-30-12	105.62	221,812.50	106.25	223,125.00	0.2	10,237.50	4.6
275,000	U.S. Treasury Note 4.625% Due 07-31-12	104.58	287,589.50	105.41	289,867.19	0.3	12,718.75	4.4
500,000	U.S. Treasury Note 4.250% Due 08-15-13	100.03	500,156.25	104.31	521,562.50	0.6	21,250.00	4.1



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
475,000	U.S. Treasury Note 4.750% Due 05-15-14	105.68	501,980.00	107.19	509,140.62	0.6	22,562.50	4.4
500,000	U.S. Treasury Note 4.500% Due 11-15-15	100.12	500,625.00	105.31	526,562.50	0.6	22,500.00	4.3
50,000	U.S. Treasury Note 4.875% Due 08-15-16	106.08	53,039.00	107.22	53,609.37	0.1	2,437.50	4.5
500,000	U.S. Treasury Bond 8.750% Due 05-15-17	135.03	675,156.25	134.72	673,593.75	0.7	43,750.00	6.5
	Accrued Interest				47,980.48	0.1		
	U.S. TREASURY NOTES/BONDS Total		4,165,797.98		4,232,735.16	4.7	200,431.25	4.8
GOVERNMENT AGENCIES								
500,000	Fed Home Loan Bank 5.805% Due 03-23-09	100.00	500,000.00	102.12	510,625.00	0.6	29,025.00	5.7
500,000	Tenn Valley Authority 6.000% Due 03-15-13	101.58	507,880.00	107.48	537,415.50	0.6	30,000.00	5.6
150,000	Fed Home Loan Mtg 4.500% Due 07-15-13	101.22	151,828.50	101.53	152,296.87	0.2	6,750.00	4.4
270,000	Fed Natl Mtg Assoc 4.625% Due 10-15-13	101.25	273,375.00	101.94	275,231.25	0.3	12,487.50	4.5
500,000	Fed Natl Mtg Assoc 5.500% Due 12-30-14	99.56	497,812.50	101.03	505,156.25	0.6	27,500.00	5.4
500,000	Fed Natl Mtg Assoc 5.000% Due 06-26-15	95.50	477,500.00	100.03	500,156.25	0.6	25,000.00	5.0
360,000	Fed Natl Mtg Assoc 5.000% Due 03-15-16	101.97	367,088.40	102.06	367,425.00	0.4	18,000.00	4.9
1,000,000	Fed Home Loan Mtg 6.000% Due 03-30-22	99.85	998,470.00	101.51	1,015,142.00	1.1	60,000.00	5.9
300,000	Fed Natl Mtg Assoc 6.250% Due 05-15-29	115.35	346,045.50	113.12	339,375.00	0.4	18,750.00	5.5
	Accrued Interest				45,137.47	0.0		
	GOVERNMENT AGENCIES Total		4,119,999.90		4,247,960.59	4.7	227,512.50	5.4
MORTGAGE BACKED SECURITIES								
FNMA/FHLMC								
143,320	FGCI #E97963 5.000% Due 07-01-18	101.78	145,872.82	99.77	142,985.99	0.2	7,166.00	5.0
298,319	FGCI #G18008 4.500% Due 09-01-19	100.31	299,251.67	97.51	290,900.22	0.3	13,424.37	4.6



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
234,129	FNCI #831192 5.000% Due 11-01-20	98.79	231,286.46	99.37	232,663.10	0.3	11,706.44	5.0
421,799	FGCI #G11900 5.500% Due 02-01-21	98.91	417,185.85	101.05	426,219.74	0.5	23,198.96	5.4
756,365	FGCI #G12335 5.000% Due 05-01-21	98.59	745,728.51	99.27	750,820.74	0.8	37,818.24	5.0
553,183	FNCL #886599 5.500% Due 08-01-21	99.52	550,503.05	100.84	557,845.86	0.6	30,425.04	5.5
242,229	FGCI #G18175 5.500% Due 04-01-22	100.37	243,134.58	100.68	243,883.08	0.3	13,322.58	5.5
183,060	FGCI #G12777 5.000% Due 08-01-22	98.83	180,909.88	98.90	181,050.06	0.2	9,153.00	5.1
254,335	FNCI #949663 5.500% Due 08-01-22	100.41	255,364.65	100.79	256,343.79	0.3	13,988.40	5.5
343,789	FNCL #799556 5.000% Due 11-01-34	99.64	342,553.06	96.35	331,226.52	0.4	17,189.43	5.2
805,161	FNCL# 832869 5.000% Due 09-01-35	96.80	779,370.95	96.19	774,476.57	0.9	40,258.06	5.2
164,193	FNCL #805625 5.500% Due 12-01-35	98.47	161,678.43	98.87	162,342.18	0.2	9,030.59	5.6
392,862	FNCL #852028 6.000% Due 01-01-36	99.16	389,547.53	101.12	397,274.15	0.4	23,571.74	5.9
740,684	FNCL #868450 5.500% Due 04-01-36	99.22	734,897.11	98.75	731,410.34	0.8	40,737.60	5.6
1,054,888	FNCL #938289 5.500% Due 07-01-37	98.68	1,040,963.32	98.70	1,041,132.05	1.1	58,018.83	5.6
236,981	FGLMC #G03216 5.000% Due 09-01-37	96.12	227,781.11	95.91	227,283.40	0.3	11,849.03	5.2
322,255	FNCL #899719 5.000% Due 09-01-37	96.12	309,745.15	95.95	309,200.55	0.3	16,112.75	5.2
1,462,300	FNCL #256925 6.000% Due 10-01-37 Accrued Interest	100.77	1,473,501.53	101.01	1,477,040.14	1.6	87,738.01	5.9
			8,529,275.64		37,434.90	0.0	464,709.08	5.4
GNMA	199,521 GNJO #605142 4.500% Due 03-15-19	100.75	201,017.53	98.11	195,742.19	0.2	8,978.45	4.6



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
184,792	GNSF #594139 5.000% Due 10-15-33	100.09	184,965.11	97.32	179,848.69	0.2	9,239.59	5.1
373,169	GNSF #671531 5.500% Due 09-15-37 Accrued Interest	100.25	374,101.54	99.68	371,993.11	0.4	20,524.27	5.5
					3,120.91	0.0		
			760,084.18		750,704.90	0.8	38,742.32	5.2
	MORTGAGE BACKED SECURITIES Total		9,289,359.82		9,322,238.27	10.3	503,451.40	5.4
COMMERCIAL MORTGAGE BACKED SECURITIES								
750,000	GS Mortgage Sec 5.396% Due 08-10-38	101.28	759,609.38	97.93	734,467.50	0.8	40,470.00	5.5
500,000	Merrill Lynch Mtg Tr 5.499% Due 01-12-44	96.99	484,941.41	88.13	440,655.00	0.5	27,497.19	6.2
1,000,000	JPMCC 2006-LDP9 A3 5.336% Due 05-15-47 Accrued Interest	99.09	990,937.50	93.81	938,060.00	1.0	53,360.00	5.7
	COMMERCIAL MORTGAGE BACKED SECURITIES Total		2,235,488.29		2,119,029.03	2.3	121,327.19	5.7
CORPORATE BONDS								
UTILITY BONDS								
1,000,000	Georgia Power 5.125% Due 11-15-12	97.28	972,810.00	101.51	1,015,125.00	1.1	51,250.00	5.0
142,000	Duke Energy Corp. 5.300% Due 10-01-15	101.07	143,515.10	100.72	143,023.54	0.2	7,526.00	5.3
300,000	Natl Rural Utilities 7.200% Due 10-01-15	119.23	357,705.00	108.00	324,004.20	0.4	21,600.00	6.7
140,000	Carolina Power & Light 5.250% Due 12-15-15	100.44	140,616.00	100.31	140,440.72	0.2	7,350.00	5.2
110,000	SBC Comm Inc. 5.625% Due 06-15-16	101.37	111,508.10	99.03	108,935.31	0.1	6,187.50	5.7
500,000	South Carolina E&G 5.300% Due 05-15-33	105.04	525,222.50	88.85	444,263.00	0.5	26,500.00	6.0
500,000	Comcast Corp. 6.450% Due 03-15-37 Accrued Interest	101.42	507,095.00	93.07	465,345.50	0.5	32,250.00	6.9
					26,889.66	0.0		
			2,758,471.70		2,668,026.92	2.9	152,663.50	5.8
FINANCIAL BONDS								
140,000	Gen. Elec. Cap. Corp. 4.875% Due 10-21-10	102.21	143,089.80	101.57	142,201.08	0.2	6,825.00	4.8



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
500,000	National City Bank 6.250% Due 03-15-11	100.00	500,000.00	90.88	454,387.00	0.5	31,250.00	6.9
500,000	Household Finance 6.375% Due 11-15-12	115.58	577,912.50	102.54	512,699.50	0.6	31,875.00	6.2
500,000	Progressive Corp. 7.000% Due 10-01-13	94.84	474,220.00	105.99	529,945.00	0.6	35,000.00	6.6
1,000,000	Principal Life Inc. FDG 5.100% Due 04-15-14	96.71	967,130.00	96.53	965,345.00	1.1	51,000.00	5.3
700,000	Bear Stearns Co. 5.700% Due 11-15-14	98.58	690,032.00	96.64	676,491.90	0.7	39,900.00	5.9
110,000	Gen. Elec. Cap. Corp. 5.400% Due 02-15-17	101.59	111,750.10	97.06	106,770.18	0.1	5,940.00	5.6
500,000	Hartford Financial 5.375% Due 03-15-17	97.04	485,225.00	94.23	471,153.00	0.5	26,875.00	5.7
500,000	Lehman Bros. Holdings 6.500% Due 07-19-17	98.70	493,480.00	92.51	462,559.50	0.5	32,500.00	7.0
	Accrued Interest				62,210.62	0.1		
			4,442,839.40		4,383,762.78	4.8	261,165.00	6.0
INDUSTRIAL BONDS								
500,000	Whitman Corp 6.375% Due 05-01-09	112.74	563,715.00	102.41	512,052.00	0.6	31,875.00	6.2
142,000	United Technologies 4.375% Due 05-01-10	100.76	143,076.40	102.04	144,890.27	0.2	6,212.50	4.3
500,000	Avon Products 5.125% Due 01-15-11	97.96	489,820.00	101.57	507,858.00	0.6	25,625.00	5.0
60,000	IBM Corp. 4.950% Due 03-22-11	101.89	61,134.00	102.42	61,454.10	0.1	2,970.00	4.8
375,000	Estee Lauder Cos Inc. 6.000% Due 01-15-12	110.31	413,658.75	104.20	390,768.37	0.4	22,500.00	5.8
140,000	Pepsico Inc. 5.150% Due 05-15-12	103.96	145,539.80	104.01	145,610.22	0.2	7,210.00	5.0
142,000	GE Company 5.000% Due 02-01-13	101.48	144,108.70	100.72	143,022.12	0.2	7,100.00	5.0
500,000	Wal-Mart Stores 7.250% Due 06-01-13	105.58	527,925.00	110.48	552,423.00	0.6	36,250.00	6.6
100,000	Schering-Plough 5.300% Due 12-01-13	101.31	101,313.00	100.66	100,662.40	0.1	5,300.00	5.3
500,000	Deere & Company 6.950% Due 04-25-14	107.33	536,670.00	109.56	547,782.50	0.6	34,750.00	6.3

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
645,000	Cisco Systems 5.500% Due 02-22-16	98.29	633,966.00	100.89	650,745.01	0.7	35,475.00	5.5
134,000	Abbott Labs 5.875% Due 05-15-16	104.44	139,944.20	102.89	137,866.97	0.2	7,872.50	5.7
500,000	Anheuser Busch 5.050% Due 10-15-16	100.18	500,918.63	91.53	457,673.50	0.5	25,250.00	5.5
450,000	Coca-Cola Enterprises 7.125% Due 08-01-17	118.68	534,051.00	112.09	504,414.00	0.6	32,062.50	6.4
1,000,000	J.C. Penney 5.750% Due 02-15-18	96.74	967,400.00	89.22	892,223.00	1.0	57,500.00	6.4
550,000	Kerr-McGee Corp 6.950% Due 07-01-24	104.28	573,556.50	103.73	570,495.75	0.6	38,225.00	6.7
500,000	IBM Corp. 7.000% Due 10-30-25	112.65	563,240.00	107.31	536,526.00	0.6	35,000.00	6.5
323,000	Procter & Gamble 5.550% Due 03-05-37	100.28	323,901.20	96.11	310,444.02	0.3	17,926.50	5.8
	Accrued Interest				126,825.96	0.1		
			<u>7,363,938.18</u>		<u>7,293,737.20</u>	<u>8.0</u>	<u>429,104.00</u>	<u>6.0</u>
	CORPORATE BONDS Total		14,565,249.28		14,345,526.90	15.8	842,932.50	6.0
CASH & EQUIVALENTS								
	Dividend Accrual		91,888.46		91,888.46	0.1	0.00	0.0
	Inventor MMF		3,526,989.52		3,526,989.52	3.9	109,336.68	3.1
	MMF Interest Accrual		14,139.00		14,139.00	0.0	494.86	3.5
	CASH & EQUIVALENTS Total		3,633,016.98		3,633,016.98	4.0	109,831.54	3.0
TOTAL PORTFOLIO			88,930,431.33		90,849,317.94	100.0	2,343,715.35	2.6



Agriculture: Global Trends and Investment Implications

By Advisor Perspectives, June 17, 2008

Not far from the Oregon Trail, in a beautiful valley where 90 percent of the country's hazelnuts are grown, are the offices of Auxier Asset Management and its founder, Jeff Auxier. In addition to managing over \$400 million in assets, Auxier is an owner and operator of a farm, where he grows hazelnuts, timber, hay, and raises cattle.

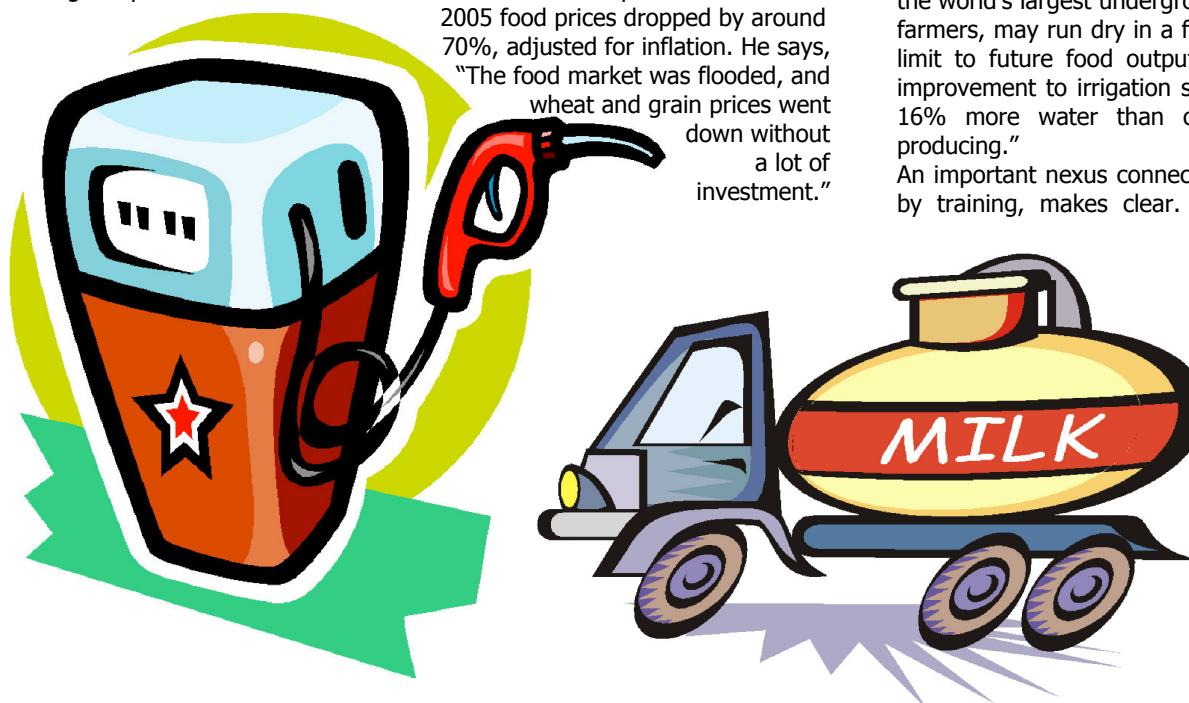
We turned to Auxier to understand the recent surge in agricultural prices, and spoke with him on June 6, 2008.

A new book, *The End of Food*, by Paul Roberts (whose previous book, *The End of Oil*, won numerous awards), also explains many of the long term trends in the agricultural commodities.

Why a Gallon of Milk Costs More than a Gallon of Gas

"Globally, we have under-invested in agriculture since 1990. There has been a dramatic drop in technology research," says Auxier. Going back 300 years, there have been regular cycles, lasting approximately 18 years, characterized by declining food prices leading to food shortages, followed by a surge in prices and investment in research and development. From 1975-

2005 food prices dropped by around 70%, adjusted for inflation. He says, "The food market was flooded, and wheat and grain prices went down without a lot of investment."



Now we are on the up cycle. "A perfect storm triggered the surge in food prices," says Auxier. Its elements include a globally growing middle class, drought conditions in Australia, which cut back on grain production and the demographics of the U.S. farming industry (where the average age is now 62). The bio-fuels mandate, which took away one third of the U.S. corn crop, and urbanization, which has taken away large areas of desirable farmland, including in local Portland also fueled the deluge.

Transportation costs play a big role. Auxier notes that the food is transported between 1,200 and 1,500 miles from where it is grown to where it is consumed. Recently trends toward locally grown produce have had little impact.

Both Roberts and Auxier view agricultural challenges as a global problem. Roberts' central thesis is that the system of food production is no longer sustainable for the billions of consumers it was built to serve.

Roberts believes water is the most constrained resource and expects "rising temperatures and shifting patterns in rainfall and storm frequency" to push down global food output. He cites research that the Ogallala Aquifer, the world's largest underground lake and the primary source of water for U.S. farmers, may run dry in a few decades. "Water shortages may dwarf oil as a limit to future food output," says Roberts. "By 2025, even with dramatic improvement to irrigation systems, meeting global food demand will require 16% more water than our existing overburdened system is currently producing."

An important nexus connects food and oil, which Roberts, an energy analyst by training, makes clear. "Modern farming runs on oil," in the form of

fuel and fertilizer, says Roberts. Roberts is a believer in Peak Oil (see our article in this issue) and expects oil shortages to coincide with a sharpening of global food demand.

"The problem with agriculture is that it is not a pure free market," says Auxier, adding, "governments are involved, and that adds to complexity." He notes that 36 million acres are in the government's conservation reserve program, where the government pays farmers not to grow crops, although some of this has now been released to produce hay on that ground. On the foreign side, trade protection is growing as other countries apply export tariffs on grains, further increasing price pressure.

Emerging markets are driving global demand for food. Many countries see half of the typical family budget spent on food. "Adding consumers that are more westernized, particularly among the BRIC (Brazil, Russian, India, and China) countries heighten demand," says Auxier.

Long Term Supply and Demand

Roberts traces the explanation of the problem to Thomas Malthus who, in 1798, predicted an apocalyptic cycle of agricultural responses to population growth. Food scarcity would lead to technology development and increased production, which in turn would lead to population increases, which would require increasing food supplies.

The only way for the cycle to end would be through famine, according to Malthus. Both Auxier and Roberts are decidedly more optimistic.

"In order to solve the problem we need higher prices," says Auxier, to support the research and development needed to improve technology. Auxier traces today's high prices to shortages in three fundamental resources: water, fertilizer, and seed technology. "More brainpower might solve this, and I am seeing encouraging developments from global think tanks," he says, although he expects it will take three to five years for capacity increases and conservation efforts for productivity to meet demand.

"In the 1960s there was a pronounced food shortage, while the economy was growing globally," says Auxier. A significant capital investment in the 1970s to improve irrigation, fertilizer, and seed technology followed. "There was a lot of attention to mass production and techniques to get yields and productivity up, mostly through the development of synthetic fertilizers," he said. He sees this scenario repeating itself in today's markets.

Roberts believes the technology-driven improvements that resolved past crises have shown diminishing returns over the last several decades, and are not a long term solution. While calling for a massive commitment for funding research, he believes we need "thousands" of solutions on a global basis, involving new crops, farming methods, land-use laws, transportation systems, and boosting local production.

Dietary changes also will help, adds Roberts, to stem the increase in

global meat consumption, which is not an energy-efficient way to consume calories.

Investment Implications

Auxier sees agriculture from an operational and a capital markets perspective. For his funds, his biggest concern is inflation, with food and, of course, energy prices leading the way. "We want companies with enduring franchises that can price through an inflationary cycle."

He also likes companies with high inventory turns that sell necessities, like Wal-Mart, Costco, and supermarkets. He sees consumers de-levering in the recessionary environment. "Until recently, 50% of the money spent on food in the U.S. was spent in restaurants," says Auxier, who expects that to change, as people eat at home to save money.

"As stewards of life savings, advisors must look at the downside," says Auxier. In addition to higher inflation, Auxier is worried about P/E compression, noting that P/E ratios have tracked fairly closely to 20 minus the inflation rate. "Once you properly adjust for reported CPI measures to reflect reality, we could be in for some bad news on the P/E front," he says.

"This is an exciting time for long term investors, and advisors can add a lot of value. These problems are not easy to solve,' says Auxier.

Neither Roberts nor Auxier sees short term relief to increased grocery bills.

Unlike the oil markets, where multiple competing theories – including speculation—seek to explain increased prices, only supply and demand provide a rational explanation for food inflation. Food prices represent approximately 15% of the CPI and even with the criticisms that have been leveled against the government reported CPI data, fundamentals in the agricultural markets spell higher inflation.

In the last two years, Auxier has seen much of his own hazelnut crop headed for China. Growth in world's developing economies fuels their thirst for luxury goods. As the world's most populous country adds hazelnuts to its diet, it takes one more step in constraining the global supply of food.

© Copyright 2008, Advisor Perspectives, Inc. All rights reserved.

